September 20, 2022

Borosil Limited: Ratings continues on watch with developing implication; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Cash Credit	25.00	25.00	[ICRA]A+&, Continues on watch with developing implication
Long term/Short term fund-based	60.00	60.00	[ICRA]A+&/[ICRA]A1+&, Continues on watch with developing implication
Long-term/Short-term Non-fund based	6.00	6.00	[ICRA]A+&/[ICRA]A1+&, Continues on watch with developing implication
Long term fund-based – Term Loan	-	125.00	[ICRA]A+&; assigned
Total	**91.00**	**216.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating for Borosil Limited (BL or the company) at [ICRA]A+/[ICRA]A1+ continues to be on watch with developing implications given the imminent demerger of the scientific and industrial product division of BL after implementation of it's board approved composite scheme of arrangement, which was announced on the stock exchanges on February 07, 2022. This scheme is among BL and its subsidiaries, Klass Pack Limited (KPL) and Borosil Technologies Limited (BTL), wherein BL's existing paid-up equity share capital in KPL will be cancelled. Thereafter, KPL will be amalgamated with BTL, resulting in a new entity, Borosil Scientific Limited (BSL). Further, the scientific and industrial product division of BL will be demerged and later transferred to the new company. Following this implementation of the restructuring, there will not be any cross holdings between BL and BSL, while the promoters will hold 70.44% in BL and 68.16% in BSL. BL will house the consumer product (CP) business and BSL will house the scientific and industrial product (SIP) business.

The continuation of watch on developing implications takes into account that the scheme of demerger is yet to be approved by the National Company Law Tribunal (NCLT) and the exact impact of the scheme in terms of business and financial implications is yet to evolve, chiefly in terms of construction of the balance sheet, given the company is in the midst of a large capex programme for both its CP and SIP divisions, of which the SIP division will be demerged from this entity. ICRA will resolve the watch once full clarity emerges on the transaction and the actual impact on the credit profile of BL's is ascertained.

The ratings continue to favourably consider the extensive experience of the company's promoters in the table & kitchenware and laboratory scientific product industry, its established brand presence in the consumer ware business, coupled with a diverse product offering in glassware, glass microwavable, non-glassware (hydra & appliances) and opal ware categories. Further, the ratings draw comfort from BL's well entrenched distributor network in the domestic market and its diversified customer base with reputed clients. The ratings also continue to factor in the company's rising share of revenues from margin accretive opal ware segment supported by a favourable demand with growing consumption of high-end tableware and dining products driven by rising affluence in Indian households leading to change in lifestyles. In addition, the recent anti-dumping duty imposition by the Government on China and the UAE in opal ware, also augurs well for the growth of BL's CP segment.

The ratings, however, remain constrained by BL's high working capital intensive nature of operations emanating from large inventory requirements amid a wide product profile and substitution risks from alternative products along with intense

competition from organised and unorganised players, particularly in the consumer ware segment. Also, the company's profitability remains exposed to foreign currency fluctuation risk given the presence of sizable imports; although this is partly mitigated by the hedging mechanism in place. ICRA notes the inflationary environment aggravated by geopolitical issues like the Russia Ukraine conflict twinned with the Rupee depreciation against the Dollar which has led to an escalation in input costs and is likely to keep pressure on margins in the near term. ICRA also notes that the company is in the midst of large capex of ~Rs. 652 crore for both its current divisions, with doubling capacity planned in opal ware business along with borosilicate glass project under its consumer product (CP) division coupled with capacity expansion planned in pharma packaging and others. Given that the project is partially debt funded, the coverage metrics in the near term is expected to moderate and only improve over medium term once the full commercialisation benefit is available. Moreover, ICRA takes note of potential impact on BL's revenues with the demerger of SIP division, though the risk is partly offset by doubling of installed capacities planned in opal ware business. Going ahead, the company's ability to achieve healthy capacity utilisation levels with commensurate returns, for its ongoing capex without any time and cost overruns would remain critical and, hence, a key monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in laboratory glassware and table and kitchenware business – The promoters have extensive experience, and the company has a strong track record in the glassware business in table and kitchenware and scientific and industrial product segment. Over the period, BL has established itself as a well-recognized brand in domestic market in both laboratory glassware and table and kitchenware product categories.

Diversified product offering in laboratory and consumer ware division with presence in glassware, non-glassware, and opal ware – In consumer ware segment, BL caters to all segments of the table and kitchenware industry including opal ware, glass microwavable, tumblers, etc. It has also visible presence in small kitchen appliances and hydra bottles range. Additionally, it is the market leader in the supply of labware/scientific glassware. Over the period, the company has also established its presence in pharma packaging and lab instrumentation business.

Strong distribution network; established and diversified customer base – BL has a well-entrenched network of distributors and retailers across the country. It also engages in institutional and business-to-business (B2B) sales, which drive about 15-20% of its total sales alongwith strong channel distribution in ecommerce and large format stores. This apart, the company also drives a notable business from online sales through myborosil.com. Moreover, it has an established customer base with several repeat customers owing to its established brand presence over the years.

Rising share of revenues from value accretive Opal ware segment which will render support to margin in Consumer division; anti-dumping duty imposed on opal ware segment to augur well for business growth of the domestic players like BL– The company's opal ware products are sold under the brand 'Larah' has witnessed a steady rise aided by favourable demand. The increasing usage of opalware crockery as a daily serving dinnerware with growing affluence of Indian household and changing lifestyle results in healthy growth prospectus for opal ware business in the domestic market. This apart, the recent anti-dumping duty imposition in place on China and UAE for opal ware product segment augurs well for the business growth of domestic players like BL.

Credit challenges

Ongoing large debt funded capex to put pressure on coverage indicators in the near term – The company has lined up a sizable capex in of ~Rs. 652 crore in both its CP and SIP divisions which is to be phased out in the current and next two fiscal. For the capex of ~Rs.387 crore planned in CP division the company has availed a term loan of Rs.125 crore while the capex of Rs. 242 crore in the SIP division along with minor routine capex will be fund through own sources. With sizable capex is under way the near term coverage and return indictors will remain under check and are expected to improve post full commercialisation benefit of the same is available. Hence, the company's ability to achieve healthy capacity utilisation levels with commensurate returns, for the ongoing capex without any material time and cost overruns would remain critical from rating perspective. .

High working capital intensive nature of operations because of high inventory requirement – The operations of the company remain highly working capital-intensive owing to the high inventory requirements as well as inventory build-seen during seasonal festive demand. With over 1,500 types of products sold under the Borosil brand, the company has to maintain high levels of inventory at warehouses to promptly service its customer requirements.

Margins remain under pressure due steady escalations in input prices due to inflationary cost conditions – Off lately, given the inflationary environment aggravated by geopolitical issues like Russian invasion of Ukraine and recent rupee depreciation against dollar has led to an escalation in the input cost mainly raw material and fuel cost for the company. This apart, pressure on company to expand its market share with its surplus capacities in near term may result in company offering its product at competitive rates given the intense competition. Hence, the margin in near term is expected to be under check, till the situation on inflationary cost regime front eases.

Potential impact of divestment of SIP division on BL's revenues in near term; although doubling of capacity in opal ware division in CP division to offset the risk partially– At consolidated level, SIP contributed ~32% of BL's sales in FY2022 compared to over ~34% of BL's sales in FY2021. With expected demerger of the SIP business, the company's scale of operation is likely to impacted in the near term. However, comfort is drawn from the expected enhanced focus on consumer ware and the ongoing capex for doubling the capacity in value-add opal ware segment and addition of borosilicate glass manufacturing, which should eventually support the topline for the demerged entity. This apart, company's growing market for hydra and small kitchen appliances should also support the topline in near to medium term.

Liquidity position: Strong

BL's liquidity position is strong, supported by sizable free cash and bank balances, liquid investments of Rs.201 crore, and other investments in committed alternates and real-estate funds at a consolidated level as on March 31, 2022, indicating favourable liquidity. Since the company is in the middle of a large capex which is partly funded by the liquidity on books, the liquid balance is expected to moderate in the near term, although it will remain at a comfortable level, supported by sizeable buffer in fund-based limits and long tenure term loan repayment with one year moratorium. The repayment of the new term loan is expected to be adequately covered by cash accruals, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade BL's rating if the company demonstrates sustained revenue growth while maintaining healthy profitability and debt coverage indicators. Other factors that may lead to a rating upgrade include improvement in its working capital cycle and improvement in RoCE on a sustained basis.

Negative factors – Downward pressure on the rating could emerge if lower than expected cash accruals from any material decline in revenues and/or profitability or any large unanticipated debt-funded capex weakens the overall financial profile. Lack of commensurate returns from the ongoing capex, in terms of scaling up of operations or moderation in coverage numbers or material deterioration in liquidity will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2022, BL had three subsidiary who are enlisted in Annexure 2.

About the company

BL is a supplier of laboratory glassware, lab instrumentation and pharma packaging products along with microwaveable table and kitchenware, opalware and non-glassware (hydra and small kitchen appliances) range of products in India. It sells and markets microwavable and flameproof kitchenware and glass tumblers through more than 15,000 retail outlets and has three manufacturing facilities at Bharuch (Gujarat), Tarapur (Maharashtra) and Jaipur (Rajasthan). BL conducts its operations in two business segments—namely, SIP; including laboratory glassware, laboratory instruments and pharma packaging and CP; including microwaveable, kitchenware as well as opalware products. While the microwaveable and kitchenware products are sold under the flagship 'Borosil' brand, opalware products are sold under the 'Larah' brand, and laboratory instruments are sold under the 'Labquest' brand. The company's shares were listed on the BSE/NSE stock exchange on July 11, 2020.

The company has two wholly owned subsidiaries, BTL (engaged in designing, developing and assembling laboratory bench top equipment and instruments based in Pune, Maharashtra) and Acalypha Realty Limited (ARL; engaged in real estate development with no operations as on date); and 82.49% shareholding in KPL (manufacturer and supplier of pharmaceutical vials and ampoules, with its manufacturing facility at Nashik, Maharashtra).

Key financial indicators (Audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	586.1	841.2
PAT (Rs. crore)	42.4	85.2
OPBDIT/OI (%)	14.3%	17.23%
PAT/OI (%)	7.2%	10.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	34.6	129.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators (Audited)

Standalone	FY2021	FY2022
Operating income (Rs. crore)	527.9	751.5
PAT (Rs. crore)	40.8	77.5
OPBDIT/OI (%)	14.4%	17.1%
PAT/OI (%)	7.7%	10.3%
Total outside liabilities/Tangible net worth (times)	0.0	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	43.2	159.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					20 Sep 2022	16 Feb 2022	13 Apr 2021	30 Dec 2020	7 Oct 2019
1	Fund Based/CC	Long Term	25.00	-	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BB&
2	Fund Based/CC/Working capital facilities	Long Term/ Short Term	60.00	-	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-
3	Non - Fund Based/Letter of Credit/Bank guarantee	Long Term/ Short Term	6.00	-	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-
4	Fund Based – Term Loan	Long Term	125.00	0.00	[ICRA]A+&	-	-	-	-
5	Unallocated	Long Term/ Short Term	-	-	-	-	-	-	[ICRA]BB &/ [ICRA]A4+&

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund Based/CC	Simple
Long term/Short Term – Fund based/CC	Simple/Very Simple
Long term/Short Term – Non-Fund based/LOC/BG	Simple/Very Simple
Long term-Fund Based/TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	25.00	[ICRA]A+&
NA	Fund based*	-	NA	-	60.00	[ICRA]A+&/ [ICRA]A1+&
NA	Letter of Credit/Bank Guarantee	-	NA	-	6.00	[ICRA]A+&/ [ICRA]A1+&
NA	Term Loan	Jan 05, 2022	NA	FY2029	125.00	[ICRA]A+&

** CC, WCDL, EPC/PCFC, Overdraft.; &= Under watch with developing implication*

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Klasspack Limited	82.49%	Full Consolidation
Borosil Technologies Limited	100.00%	Full Consolidation
Acalypha Realty Limited	100.00%	Full Consolidation

Source: *Company*

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